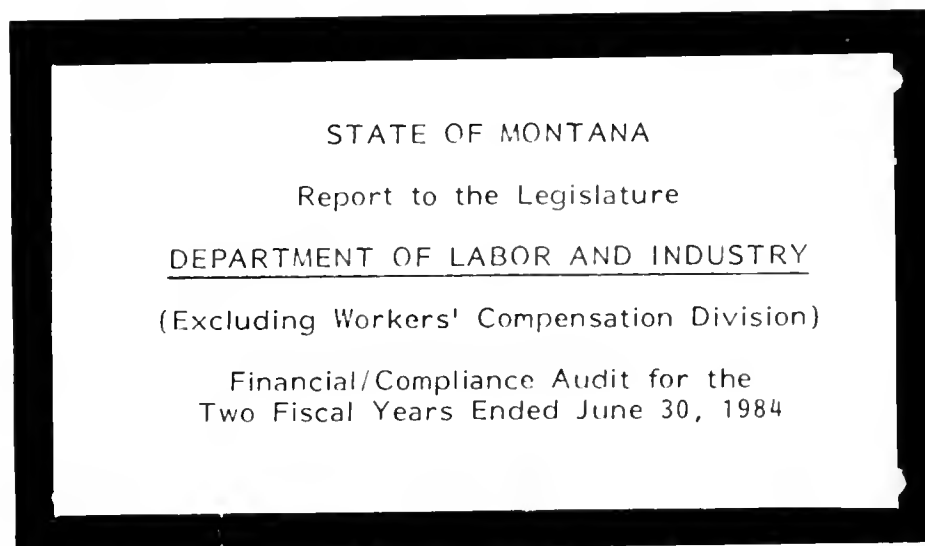


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STATE OF MONTANA

Report to the Legislature

DEPARTMENT OF LABOR AND INDUSTRY

(Excluding Workers' Compensation Division)

Financial/Compliance Audit for the
Two Fiscal Years Ended June 30, 1984

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APPOINTIVE AND ADMINISTRATIVE OFFICIALS

David L. Hunter	Commissioner on leave effective April 20, 1984
David Wanzenried	Acting Commissioner Effective April 23, 1984
Chet Rusek	Administrator, Centralized Services
Harold V. Kansier	Administrator, Unemployment Insurance Division through September 17, 1984
Mary M. "Peg" Hartman	Administrator, Unemployment Insurance Division Effective October 15, 1984
T. Gary Curtis	Administrator, Job Service Division
Anne MacIntyre	Administrator, Human Rights Division
Dick Kane	Administrator, Labor Standards Division
Robert R. Jensen	Administrator, Personnel Appeals Division

<u>Human Rights Commission</u>		<u>Term Expires</u>
Margery Brown, Chairperson	Missoula	1985
Edward Lien	Wolf Point	1985
Angelina Cormier	Billings	1985
Jack McLean	Great Falls	1987
Dennis Limberhand	Lame Deer	1987

Board of Labor Appeals

Michael Whalen, Chairperson	Billings	1985
Jerry Overmier	Helena	1985
Arlyn Plowman	Bozeman	1987

Board of Personnel Appeals

Alan Joscelyn, Chairperson	Helena	1985
John Astle	Butte	1985
Lloyd Markell	Helena	1985
Jerry Hudspeth	Glendive	1987
Hank Raucci	Great Falls	1987

SUMMARY OF RECOMMENDATIONS

The following is a listing of report recommendations together with a notation as to whether department officials concur or do not concur with each recommendation. This listing serves as a summary of report issues and as a reference to the supporting comments. The full responses of the Department of Labor and Industry and the Department of Administration are included in the back of this report beginning on page 36.

Page

Recommendation #1

The department work with the Department of Revenue to obtain evidence of out-of-state employers compliance with unemployment tax laws.

3

Department Response: Partially concur. See page 36.

Recommendation #2

The department develop procedures to ensure changes in benefit durations required by the federal government are made in a proper and timely manner.

4

Department Response: Concur. See page 36.

Recommendation #3

The department establish procedures to ensure a review of application forms is completed within 30 days in accordance with federal regulations.

5

Department Response: Concur. See page 37.

Recommendation #4

The department submit federal reports when due.

6

Department Response: Concur. See page 37.

Recommendation #5

The department record accounts receivable in the state accounting records for all amounts due the department at fiscal year-end.

7

Department Response: Concur. See page 37.

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
<u>Recommendation #6</u>	
The department estimate and record an allowance for uncollectible accounts on the state accounting system.	8
<u>Department Response:</u> Concur. See page 37.	
<u>Recommendation #7</u>	
The department transfer uncollectible CETA and WIN overpayments to the Department of Revenue for collection.	9
<u>Department Response:</u> Partially concur. See page 37.	
<u>Recommendation #8</u>	
The department:	
A. Record long-term debt related to special revenue funds in the long-term debt group of accounts.	10
<u>Department Response:</u> Concur. See page 38.	
B. Reduce the bonds payable account for principal payments made during the fiscal year.	10
<u>Department Response:</u> Concur. See page 38.	
<u>Recommendation #9</u>	
The Department of Administration establish procedures to eliminate the double recording of central services expenditures.	11
<u>Departments Responses:</u> Concur. See page 38 and 40.	
<u>Recommendation #10</u>	
The department record transfers of moneys between accounts in accordance with state policy.	12
<u>Department Response:</u> Partially concur. See page 38.	

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
<u>Recommendation #11</u>	
The department reconcile the benefit bank account to the accounting records.	14
<u>Department Response:</u> Concur. See page 38.	
<u>Recommendation #12</u>	
The department implement procedures to ensure all benefit overpayments are established as an accounts receivable.	15
<u>Department Response:</u> Partially concur. See page 39.	
<u>Recommendation #13</u>	
The department include provisions in its disaster recovery plan to ensure payments to claimants are made in an efficient and economical manner.	15
<u>Department Response:</u> Partially concur. See page 39.	
<u>Recommendation #14</u>	
The department:	
A. Establish a written policy to document reviews of subgrantees cash requisition and expenditure reports.	16
<u>Department Response:</u> Concur. See page 39.	
B. Ensure warning letters and penalties are assessed in accordance with department policy.	16
<u>Department Response:</u> Concur. See page 39.	

INTRODUCTION

We performed a financial/compliance audit of the Montana Department of Labor and Industry, excluding Workers' Compensation Division, for the two fiscal years ending June 30, 1984. The objectives of the audit were to: (1) determine if the financial schedules present fairly the results of operations of the department for the two fiscal years ending June 30, 1984; (2) determine department compliance with applicable laws and regulations which could have a significant effect on the financial schedules; and (3) make recommendations for improvements in the management and internal accounting controls of the department.

This report contains 14 recommendations to the department. These recommendations address areas where management, internal control, and compliance with laws and regulations can be improved. Other areas of concern deemed not to have a significant effect on the successful operations of the department programs are not specifically included in the report, but have been discussed with management.

We reviewed compliance with state laws that could have a material impact on the financial schedules of the department. In our opinion the department complied with state laws and regulations tested. Nothing came to our attention that caused us to believe untested compliance issues are not in accordance with applicable laws and regulations.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendations.

We thank the commissioner and the department staff for their cooperation and assistance during the audit.

TRUST FUND

Montana employers pay an unemployment insurance tax on wages paid to an employee during the calendar year. Unemployment insurance taxes were paid on the first \$8,200 of an employee's

wages during calendar year 1983 and the first \$8,400 of an employee's wages during calendar year 1984. The Unemployment Insurance Division collects the tax and transfers the funds to a trust fund account in the U.S. Treasury. Money is withdrawn from the trust fund account as unemployment benefits are paid.

The unemployment insurance tax rate charged to an employer may vary each calendar year. Two factors are involved in determining the tax rate charged. The first is the employer's experience rating. The experience rating is based on an employer's actual experience in the payment of contributions and benefits charged against his account. The second relates to the schedule of rates assigned to the calendar year. The schedule assigned is based on the ratio of the trust fund balance to total covered wages of the previous 12-month period.

Montana's trust fund became insolvent during fiscal year 1982-83 and the department borrowed from the federal trust fund pool. The department had an outstanding loan of \$14,825,028 from the Unemployment Trust Fund in the U.S. Treasury as of June 30, 1984. During September of 1984, the department repaid \$6,268,640 of this loan.

EMPLOYER AUDITS

Employer contributions represent 73 percent of total department revenues in fiscal year 1983-84. It is important for the department to ensure that unemployment insurance taxes are properly reported and collected. Currently, the department's audit bureau performs audits of employers to ensure employers are in compliance with unemployment insurance tax laws. However, the department does not routinely audit out-of-state employers doing business in Montana. When the department does not audit these employers, the employers do not have incentive to properly report wage information in compliance with state laws. This results in lost revenue to the trust fund.

The Department of Revenue audits out-of-state employers to ensure amounts reported for withholding and other tax payments are accurate. The department should work with the Department of

Revenue auditors and request they ask the employer to provide documentation of compliance with the unemployment tax laws. The information obtained could then be provided to the department and analyzed accordingly. The department will incur additional expenditures, but we believe the future benefits realized will exceed the costs when noncomplying employers are brought into compliance.

RECOMMENDATION #1

WE RECOMMEND THE DEPARTMENT WORK WITH THE DEPARTMENT OF REVENUE TO OBTAIN EVIDENCE OF OUT-OF-STATE EMPLOYERS COMPLIANCE WITH UNEMPLOYMENT TAX LAWS.

FEDERAL COMPLIANCE

Our audit of federal moneys was performed in accordance with the requirements in the U.S. Office of Management and Budget "Circular A-102, Attachment P." This circular provides for audits of financial operations, including compliance with certain provisions of federal laws and regulations.

Department of Labor and Industry, excluding Workers' Compensation Division, was a grantee receiving federal funds from the federal agencies listed on page 35. We reviewed the major compliance areas in the Comprehensive Employment Training Act (CETA), Job Training and Partnership Act (JTPA), Work Incentive Program (WIN), Unemployment Insurance, and Employment Service grants. Areas reviewed included:

1. eligibility determination;
2. specific grant provisions;
3. cost allowability; and
4. grantor reporting.

Based on our examination, we found that, for the items tested, the department generally complied with the material terms

and conditions of the federal grant regulations. Nothing came to our attention that causes us to believe untested compliance issues are not in accordance with applicable laws and regulations.

The following sections describe instances where the department is not in compliance with specific federal regulations.

Benefit Payments

The department makes unemployment payments from the Montana Unemployment Trust Fund and several federally funded unemployment programs. One of the federal programs, the Federal Supplemental Compensation (FSC) program, is based upon the rate of unemployment in the state. During our audit, we tested a random sample of 53 benefit claimants. Of the 53 claimants tested, we noted 2 overpayments relating to the FSC program.

Based upon federal regulations, the maximum entitlement under FSC as of July 7, 1983 was 10 weeks, and the department was to reduce all claims filed prior to that date to reflect the new maximum. We noted two instances where the department did not reduce the maximum duration of FSC payments and overpayments resulted. One claimant was overpaid \$80 for one week and the other was overpaid \$145 for four weeks.

These overpayments occurred because of numerous changes made in the federal program at the time and because the department's computer program was inadequate in identifying all necessary changes. Failure to comply with federal regulations could result in federal sanctions.

RECOMMENDATION #2

WE RECOMMEND THE DEPARTMENT DEVELOP PROCEDURES TO ENSURE CHANGES IN BENEFIT DURATIONS REQUIRED BY THE FEDERAL GOVERNMENT ARE MADE IN A PROPER AND TIMELY MANNER.

Review of Application Forms

According to federal regulations, the department is to establish an eligibility determination and verification system for CETA recipients that includes a review of the completeness and consistency of the information on the recipient's application as soon after enrollment in the program as possible, but no later than 30 days. In 12 out of 20 applications tested, we could not determine if the department complied with the federal regulation. The department stated an automated system of review is used whereby the information is keypunched into the computer and is subject to various programs checking for eligibility criteria and errors. However, the department does not retain batch cards or other documentation indicating the date the computer review was completed. Without documenting the date the review was done, the department is not assured it has complied with federal regulations.

RECOMMENDATION #3

WE RECOMMEND THE DEPARTMENT ESTABLISH PROCEDURES TO ENSURE A REVIEW OF APPLICATION FORMS IS COMPLETED WITHIN 30 DAYS IN ACCORDANCE WITH FEDERAL REGULATIONS.

Federal Reporting

According to U.S. Department of Labor regulations, the department is required to submit a Statement of Financial Position (SESA report 69) 20 days after the end of the federal fiscal year. The report was due October 20, 1983; however, it was not submitted until April 1984.

The U.S. Department of Labor provided the department with a time schedule and a listing of reports needed for the close out of the CETA program. The department submitted the property transfer request report to the regional office 15 days late and did not submit the Fifth Quarter Financial Report for administrative costs.

The department should submit federal reports when due or request written authorization for an extension.

RECOMMENDATION #4

WE RECOMMEND THE DEPARTMENT SUBMIT FEDERAL REPORTS WHEN DUE.

ACCOUNTS RECEIVABLE

The department maintains accounts receivable subsystems, either automated or manual, as its detail ledger of individual accounts. Our audit of these subsystems indicated the following problems.

Unrecorded Receivables

The department pays claimants who are eligible for benefits from other states and bills those states monthly for the payments made. The amounts billed other states for benefits paid in June are not recorded on the state's accounting records by the department until August even though the amounts are known by fiscal year-end. In addition, section 39-51-1103, MCA, allows certain nonprofit employers to elect to pay the department for actual claims filed against that employer in lieu of contributions. The department bills the employer quarterly for the amount of benefits paid to claimants filing against that employer. The department did not record either of these receivables on the state accounting records at fiscal year-end.

According to state policy the department should record a receivable on the state accounting system for all amounts owed to it at fiscal year-end. In both instances the amounts are measurable as they are known by year-end and the amounts are available to finance current liabilities as they are due by July 31. As a result of not recording these receivables on the state's accounting records at fiscal year-end, the combined wage claims receivable and the employer contribution receivable are understated in the expendable trust fund at June 30, 1984 by \$547,000 and \$120,000, respectively.

The department assesses penalty and interest on employers' accounts which are past due. The department did not record \$1,125,000 of penalty and interest receivables on the state accounting system at June 30, 1984 because it estimates 75-80 percent is waived. Waivers are made as a result of penalty and interest that will not be collected because of bankruptcy, appeals, dissolution of business, and other appropriate reasons determined by the department. The department should record the receivable and record an allowance for the estimated amount to be waived.

Occasionally, claimants receive unemployment benefit overpayments and repay the excess amount after notification from the department. In reviewing eight benefit overpayment accounts where payment was received by the department in July, we found three instances where the department did not record the receivable at June 30. A billing had been sent to the claimants prior to June 30 and paid by the claimants in July prior to the account being established on the system. Upon further review, it was found the department was behind on the posting of approximately 1,100 accounts. We did not determine the exact dollar amount, but estimated the amount to be approximately \$162,000. As a result, the benefit overpayment receivable in the expendable trust fund is understated by approximately \$162,000 at June 30, 1984.

By not recording the above receivables, the department provides users of the state accounting system with inaccurate information on the amounts owed to it at year-end.

RECOMMENDATION #5

WE RECOMMEND THE DEPARTMENT RECORD ACCOUNTS RECEIVABLE IN THE STATE ACCOUNTING RECORDS FOR ALL AMOUNTS DUE THE DEPARTMENT AT FISCAL YEAR-END.

Uncollectible Accounts

The department does not record an allowance for doubtful accounts on the state accounting system for the employer tax

receivables or the benefit overpayment receivables. By not recording an allowance, the department indicates to users of the information that all amounts are collectible. Based upon our review of the accounts, we estimate 12 to 50 percent are uncollectible due to bankruptcy, dissolution of business, appeals, waivers, etc. In addition, approximately 17 percent of our confirmations were returned by the post office as undeliverable. State accounting policy states an allowance for doubtful accounts should be recorded for the estimated portion of receivables which will not be collected. The department should estimate and record an allowance for uncollectible accounts on the state accounting system.

RECOMMENDATION #6

WE RECOMMEND THE DEPARTMENT ESTIMATE AND RECORD AN ALLOWANCE FOR UNCOLLECTIBLE ACCOUNTS ON THE STATE ACCOUNTING SYSTEM.

Allowance Overpayments

As noted in the last audit report, the department does not refer uncollectible CETA and WIN overpayments to the Department of Revenue for collection. The department has recorded \$27,484 of receivables which are over one year old.

Department personnel stated the Department of Revenue would not accept these accounts because they are overpayments of federal dollars. However, the Department of Revenue requested the department to determine if they were federal funds, and the department did not adequately follow up on the request. Since the department has the discretion of who receives the funds and it improperly overpaid the recipients, the state is liable to the federal government. Therefore, it is the state's responsibility to collect the overpayments. According to section 17-4-104, MCA, the department should transfer these accounts to the Department of Revenue for collection.

RECOMMENDATION #7

WE RECOMMEND THE DEPARTMENT TRANSFER UNCOLLECTIBLE CETA AND WIN OVERPAYMENTS TO THE DEPARTMENT OF REVENUE FOR COLLECTION.

LONG-TERM DEBT

The department is currently indebted on two long-term bond issues, two long-term notes, and a loan from the Federal Unemployment Insurance Trust Fund.

The department recorded \$1,468,582 of debt in the Statewide Budgeting and Accounting System (SBAS), Special Revenue Fund, as a contingent liability with an offset to a reserve for contingent liabilities. This amount represents a note payable to the Department of Administration at June 30, 1984. The note payable applies to the portion of the 1980 and 1981 General Obligation Bond issue applicable to the department's construction of local job offices. This provides misleading financial information to users. According to state policy, long-term debt related to and expected to be paid from special revenue funds should be accounted for in the Long-Term Debt Group of Accounts. In addition, the department failed to reduce the balance in the account by \$383,666 for principal payments made and for the return to the Department of Administration of an unused portion of the 1981 General Obligation Bond issue. As a result of these errors, Notes Payable and Amounts to be Provided are understated by \$1,084,917 in the Long-Term Debt Group at June 30, 1984.

The department also has a \$324,030 bonds payable to the Public Employees' Retirement System at June 30, 1984. The department did record the bonds in the Long-Term Debt Group of Accounts; however, the department failed to reduce the bonds payable for \$123,330 of principal payments made during fiscal year 1983-84. The department should reduce the bonds payable account in the Long-Term Debt Group for principal paid on outstanding bonds.

As a result of not recording the principal payments, Bonds Payable and Amount to be Provided are overstated by \$123,330 in the Long-Term Debt Group at June 30, 1984.

RECOMMENDATION #8

WE RECOMMEND THE DEPARTMENT:

- A. RECORD LONG-TERM DEBT RELATED TO SPECIAL REVENUE FUNDS IN THE LONG-TERM DEBT GROUP OF ACCOUNTS.
- B. REDUCE THE BONDS PAYABLE ACCOUNT FOR PRINCIPAL PAYMENTS MADE DURING THE FISCAL YEAR.

CENTRAL FUNCTION REIMBURSEMENT

The department operates a centralized services program and the commissioner's office program which provide central service functions to other programs within the department. These functions consist of centralized accounting services, word processing, facility leases, and overall administration. A cost allocation plan allocates the charges for these services to the various programs benefited.

The centralized services and commissioner's office programs incur the expenditures initially. The other programs then transfer the cash for these services and again record an expenditure. Centralized services and the commissioner's office record revenue when this cash is received. The majority of the expenditures are recharged to other special revenue fund accounts. This method overstates centralized services and commissioner's office programs special revenue fund expenditures and revenues for amounts transferred from benefiting programs.

Department personnel indicated that its method of transferring this money is necessary because these reimbursements are the centralized services and commissioner's office programs' only source of funding. Because these expenditures are incurred by one program for the benefit of another program, the expenditures should be reported only in the program that received the direct benefit of these expenditures.

Other state agencies also operate central service divisions in a similar manner. The Department of Administration should establish procedures to eliminate the double recording of central services expenditures.

RECOMMENDATION #9

WE RECOMMEND THE DEPARTMENT OF ADMINISTRATION ESTABLISH PROCEDURES TO ELIMINATE THE DOUBLE RECORDING OF CENTRAL SERVICES EXPENDITURES.

DOUBLE REPORTING

The department receives CETA and JTPA funds from the U.S. Department of Labor for administrative expenditures, subgrants to the Job Service Division, and subgrants to various outside parties. The Job Services Division receives subgrants for employment programs it operates. The department initially records revenue for all moneys in a pooled account. As money is needed for Job Service subgrants, the department transfers cash from the pooled account to a separate account for the subgrant. When the transfer is made, the department records an expenditure in the pooled account and again records revenue in the Job Service account. This is necessary so that moneys can be transferred from the state treasury to a local bank. The Job Service account ultimately incurs the expenditures as recipient payments are paid. As a result of the method used by the department to record these transactions, revenues and expenditures are overstated in the special revenue fund by \$3,070,875 in fiscal year 1982-83 and \$2,649,447 in fiscal year 1983-84.

State policy states amounts transferred from one account to another, where the transfer is not a reimbursement of an expenditure paid by the other account or a payment for goods or services, should be reported as a transfer-out or transfer-in as appropriate. The department should follow state policy when recording transfers of moneys between funds. The department could subsequently use a journal voucher to eliminate the double recognition of revenue

and expenditures. This will also ensure transfers in and transfers out are equal on each document in accordance with state policy.

RECOMMENDATION #10

WE RECOMMEND THE DEPARTMENT RECORD TRANSFERS OF MONEYS BETWEEN ACCOUNTS IN ACCORDANCE WITH STATE POLICY.

INTERNAL CONTROL

We have examined the financial schedules of the Department of Labor and Industry, excluding Workers' Compensation Division, for the two fiscal years ending June 30, 1984. We issued our opinion dated September 24, 1984, on these schedules. As part of our examination, we made a study and evaluation of the system of control of the Department of Labor and Industry. Our study evaluated the system as required by generally accepted governmental auditing standards for financial and compliance audits. We classified the controls in the following categories:

1. Revenue/Receipts;
2. Expenditures;
3. Payroll;
4. Accounts Payable;
5. Accounts Receivable;
6. Plant, Property and Equipment;
7. Cash; and
8. Data Processing Input/Processing/Output Controls.

Our study included the control categories listed above. Through our study, we determined the nature, timing, and extent of our auditing procedures. We applied alternative audit tests to cash and accounts receivable because the audit could be performed more efficiently by expanding substantive audit work. We did not

evaluate the control system to the extent necessary to give an opinion on either individual segments or the system as a whole.

The management of the Department of Labor and Industry is responsible for establishing and maintaining a system of accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of control procedures. The objectives of a system are to provide management with reasonable assurance that: (1) assets are safeguarded against loss from unauthorized use or disposition; (2) transactions are executed in accordance with management's authorization; and (3) transactions are recorded properly to permit the preparation of financial schedules in accordance with state accounting policies. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluation should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of our study described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of controls used by the department. However, our study disclosed conditions that could result in financial schedule errors that would be difficult to detect. These conditions relating to the benefit bank account, the establishment of benefit receivables, disaster recovery plan, and subgrantee report reviews are discussed on pages 14 through 16.

These conditions were considered in determining the nature, timing, and extent of the audit tests of the financial schedules and this report does not affect our report on the financial schedule dated September 24, 1984.

The preceding four paragraphs are intended solely for the use of management and the legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon presentation to the Legislative Audit Committee, is a matter of public record.

Benefit Bank Account

The department is responsible for ensuring all assets are adequately safeguarded against loss. Since June of 1983, the department has been unable to reconcile the benefit bank account with the accounting records. The department has not been able to reconcile the account because the magnetic encoding on its checks did not line up correctly for the check reader at the bank to read and because the quality of the check coding was poor. As a result, the listing of the cashed checks provided to the department by the bank was sometimes incomplete and an unreconcilable difference of approximately \$5,100 existed at June 30, 1984. The department uses this listing to update its outstanding check file.

Subsequent to fiscal year-end, the department received checks which the check reader at the bank could read. The department should reconcile the account.

RECOMMENDATION #11

WE RECOMMEND THE DEPARTMENT RECONCILE THE BENEFIT BANK ACCOUNT TO THE ACCOUNTING RECORDS.

Establishment of Benefit Receivables

The department's unemployment benefit overpayment section does not use a standardized form to initiate the establishment of an accounts receivable resulting from the overpayment of benefits. It also does not log in all overpayment notifications received from the claims examiner of the fraud unit. As a result, the department is not assured the receivable clerk enters all benefit overpayments on the system. By maintaining a log of all overpayments discovered or by using a prenumbered standardized form, the department would be better assured that all overpayments discovered are given to the benefit overpayment section and entered on the system.

RECOMMENDATION #12

WE RECOMMEND THE DEPARTMENT IMPLEMENT PROCEDURES TO ENSURE ALL BENEFIT OVERPAYMENTS ARE ESTABLISHED AS AN ACCOUNTS RECEIVABLE.

Disaster Recovery Plan

The department has a check writing system for producing checks relating to Unemployment Insurance benefits payments and WIN, CETA, and JTPA recipient payments. During fiscal year 1983-84, \$75,270,493 was paid to claimants for unemployment benefits and \$2,316,055 was paid to recipients of WIN, CETA, and JTPA. During our review of these two check writing systems, we noted the department does not have an off-site backup supply of blank warrants to aid it in the distribution of funds to recipients of the programs should a disaster occur. Should a disaster occur, the department needs to be assured it can continue to distribute funds in an efficient and economical manner.

RECOMMENDATION #13

WE RECOMMEND THE DEPARTMENT INCLUDE PROVISIONS IN ITS DISASTER RECOVERY PLAN TO ENSURE PAYMENTS TO CLAIMANTS ARE MADE IN AN EFFICIENT AND ECONOMICAL MANNER.

Subgrantee Report Reviews

Our tests of internal controls over the CETA program revealed the following problems:

1. One subgrantee's CETA cash requisition forms and four subgrantees' CETA expenditure reports reviewed did not contain documentation to indicate department personnel had reviewed the accuracy and reasonableness of the request. In accordance with federal regulations it is the department's responsibility to review the requests to ensure subgrantees are not maintaining excess cash. The department should establish a written policy to document this review.

2. Two CETA expenditure reports reviewed were received late by the department. The department did not send warning letters to the subgrantees concerning the late reporting of expenditures as required by department policy. In addition, four instances were noted where penalties and interest should have been assessed according to department policy, but were not.

These problems were also noted in our last audit report. The CETA program has been phased out; however, the controls also apply to the JTPA program.

RECOMMENDATION #14

WE RECOMMEND THE DEPARTMENT:

- A. ESTABLISH A WRITTEN POLICY TO DOCUMENT REVIEWS OF SUBGRANTEES CASH REQUISITION AND EXPENDITURE REPORTS.
- B. ENSURE WARNING LETTERS AND PENALTIES ARE ASSESSED IN ACCORDANCE WITH DEPARTMENT POLICY.

PRIOR AUDIT RECOMMENDATIONS

The last audit of the Employment Security Division, Department of Labor and Industry, for the two federal fiscal years ending September 30, 1982, was performed by a private CPA firm under contract with the Office of the Legislative Auditor. Their report contained 23 recommendations which are still applicable to the department's current operations. The department has implemented 18 recommendations, partially implemented 4 recommendations, and did not implement 1. The one recommendation which the department did not fully implement, or for which it has not taken adequate corrective actions concerns overpayment allowances (page 8). The department concurred with this recommendation.

Our last audit of the Department of Labor and Industry, excluding Workers' Compensation and Unemployment Insurance Divisions, for the two state fiscal years ending June 30, 1982 was performed by the Office of the Legislative Auditor. The report

contained 8 recommendations still applicable to the department. The department has implemented 5 recommendations and did not implement 3. The department has not taken adequate corrective action on recommendations concerning central function reimbursement (page 10), subgrantee report reviews (page 15), and uncollectible accounts (page 7). The department concurred with these recommendations.

AUDITOR'S REPORT AND AGENCY FINANCIAL SCHEDULES

STATE OF MONTANA

Office of the Legislative Auditor

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The Legislative Audit Committee
of the Montana State Legislature:

We have examined the Schedule of Changes in Fund Balance; the Schedule of Revenue - Estimated and Actual; the Schedule of Expenditures - Budget and Actual; the Schedule of Expenditures - All Funds; and the Schedule of Federal Grant Receipts of the Department of Labor and Industry, excluding Workers' Compensation Division, for the fiscal years ending June 30, 1983 and 1984, and the Schedule of Expendable Trust Fund Accounts Receivable and the Schedule of Long-Term Liabilities as of June 30, 1984. Our examination was made in accordance with generally accepted governmental auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

As described in Note 1 to the financial schedules, the department's financial schedules are prepared in accordance with state accounting policy. Accordingly, the accompanying financial schedules are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

The department improperly recorded expenditures and revenue in the Special Revenue Fund for the transfer of grant moneys between accounts in fiscal year 1982-83 and 1983-84. As a result, Federal Assistance revenue and CETA Subgrant expenditures are overstated by \$3,070,875 in fiscal year 1982-83. Federal Assistance revenue and Job Training and Partnership Act expenditures are overstated by \$2,649,447 in fiscal year 1983-84. Transfers-in

and Transfers-out are understated by the same amount. According to state policy, amounts transferred from one account to another where the transfer is not a reimbursement of expenditures or a payment for goods or services should be reported as a transfer.

The department did not record \$1,954,000 of accounts receivable due the department at June 30, 1984 on the statewide accounting records. These receivables represent amounts due from combined wage claims, from nonprofit employers electing to pay actual claims filed against them in lieu of employer contributions, from penalty and interest assessed on employers accounts which are past due, and from unemployment benefit overpayments. As a result, accounts receivable and fund balance are understated by \$1,954,000 in the Expendable Trust Fund at June 30, 1984.

The department does not record an allowance for doubtful accounts in the Expendable Trust Fund on the statewide budgeting and accounting system. The department records receivables for amounts due from bankrupt employers, from amounts relating to claimants and employers appealing decisions, and from amounts relating to dissolved businesses. It was not practical to estimate the amount but we believe the amount is material. State policy states an allowance for doubtful accounts should be recorded for the estimated portion of the receivable which will not be collected.

The department improperly classified long-term liabilities and did not reduce the amounts relating to principal payments made or the refunding of the 1981 General Obligation Bond issue. As a result, the total amount of long-term liabilities in the Schedule of Long-Term Liabilities is overstated by \$506,996.

The department improperly classified approximately \$19,800,000 of revenue in the Expendable Trust Fund for fiscal year 1982-83 for moneys received for benefit payments to unemployed military, federal, postal and federal supplemental claimants. This money was classified as Fiduciary and Trust revenue rather than Federal Assistance revenue.

In our opinion, because of the effects of the matters discussed in paragraphs three and seven, the following schedules do not present fairly, in conformity with the basis of accounting

described in Note 1, the results of operations of such funds for the fiscal years ended June 30, of the Department of Labor and Industry:

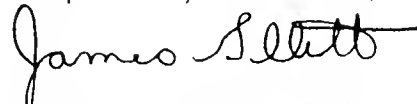
<u>Schedule</u>	<u>Fund</u>	<u>Fiscal Year</u>
Schedule of Revenue	Special Revenue	1984
- Estimated & Actual	Special Revenue	1983
	Expendable Trust	1983
Schedule of Expenditures	Special Revenue	1984
- Budget and Actual	Special Revenue	1983

In our opinion, subject to the effects of such adjustments in paragraphs four and five, if any, as might have been required had the amount been known, the Schedule of Changes in Fund Balance of the Expendable Trust Fund presents fairly the results of operations and the changes in fund balance of the Department of Labor and Industry for the fiscal years ended June 30, 1983 and 1984 and the Schedule of Expendable Trust Fund Accounts Receivable present fairly the financial position of such accounts receivable as of June 30, 1984, in conformity with the basis of accounting described in Note 1, which has been applied on a consistent basis.

In our opinion, except for the effects of the matter discussed in paragraph three and six, the following schedules present fairly the results of operations and changes in fund balance of such funds of the Department of Labor and Industry for the fiscal years ending June 30 and the position of long term liabilities as of June 30, 1984 in conformity with the basis of accounting described in Note 1, which has been applied on a consistent basis:

<u>Schedule</u>	<u>Fund</u>	<u>Fiscal Year</u>
Schedule of Changes in Fund Balance	Special Revenue General Debt Service	Two fiscal years ended June 30, 1984
Schedule of Revenue - Estimated & Actual	General Debt Service Expendable Trust	1984 and 1983 1984 and 1983 1984 only
Schedule of Expenditures - Budget & Actual	General Debt Service Expendable Trust	1984 and 1983 1984 and 1983 1984 and 1983
Schedule of Expenditures - All Funds	All Funds	1984 and 1983
Schedule of Federal Grant Receipts		1984 and 1983
Schedule of Long Term Liabilities		June 30, 1984


Respectfully submitted,



James H. Gillett, CPA
Deputy Legislative Auditor

September 24, 1984

Approved:



Robert R. Ringwood
Legislative Auditor

FUND BALANCE, J

ADDITIONS:

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DEPARTMENT OF LABOR AND INDUSTRY EXCLUDING WORKERS' COMPENSATION DIVISION
SCHEDULE OF CHANGES IN FUND BALANCE
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1984

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Expendable Trust Fund</u>	<u>Debt Service Fund</u>
FUND BALANCE, July 1, 1982	\$ -0-	\$ (1,032,980)	\$ 14,608,290	\$ -0-
ADDITIONS:				
Fiscal Year 1983				
Revenue		\$ 26,543,931 ¹	\$ 71,932,739	\$348,649
Non-Budgeted Revenue	\$ 99,283			
Prior Year Revenue		(238,042)		
Prior Year Income		11,432		
Prior Year Revenue Adjustments	373	(353,313)	1,302,064	
Support from State of Montana	815,663			
Direct Entry to Fund Balance		352,657 ⁴	224,777 ⁵	
Fiscal Year 1984				
Revenue	104,754	26,476,217 ²	75,410,739	171,139
Budgeted Transfers In		803,878		
Non-Budgeted Revenue	85,976			
Non-Budgeted Transfers In		35,982		
Prior Year Revenue Adjustments		(222,283)	(532,899)	
Support from State of Montana	1,121,334			
Direct Entries to Fund Balance		883,488 ⁶		
Total Additions	<u>2,227,383</u>	<u>54,293,947</u>	<u>148,337,420</u>	<u>519,788</u>
REDUCTIONS:				
Fiscal Year 1983				
Expenditures	913,823	26,201,029 ³		
Non-Budgeted Expenditures			88,513,722	348,649
Prior Year Expenditures		1,468		
Prior Year Withdrawals		(35,605)		
Prior Year Expenditure Adjustments	1,496	12,028		
Prior Year Withdrawals Adjustments		1,404		
Fiscal Year 1984				
Expenditures	1,298,636	26,074,886		
Budgeted Transfers Out		803,878		
Non-Budgeted Expenditures			75,270,493	171,139
Prior Year Expenditure Adjustments	13,428	(1,643)		
Direct Entries to Fund Balance			224,777 ⁵	
Total Reductions	<u>2,227,383</u>	<u>53,057,445</u>	<u>164,008,992</u>	<u>519,788</u>
FUND BALANCE, June 30, 1984	<u>\$ -0-</u>	<u>\$ 203,522</u>	<u>\$ (1,063,282)</u>	<u>\$ -0-</u>

¹ This represents \$22,522,799 of revenue; \$3,987,595 of income; and \$33,537 of nonbudgeted revenue.

² This represents \$26,473,017 of revenue; and \$3,200 of nonbudgeted revenue.

³ This represents \$14,745,270 of expenditures; \$8,770,671 of budgeted withdrawals and \$2,685,088 of nonbudgeted expenditures.

⁴ This represents corrections to transfer principal amount of long term liability to the long term debt group and to record penalty and interest loan.

⁵ This represents corrections to record a penalty and interest loan during fiscal year 1982-83 and to cancel the loan during fiscal year 1983-84.

⁶ This represents corrections for accruals relating to fiscal year 1982-83.

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 31 through 33.

General Fund
Estimated Revenue
Actual Revenue
Collections On

Special Revenue
Estimated Revenue
Actual Revenue
Collections On

Debt Service Fund
Estimated Revenue
Actual Revenue
Collections On

Expendable Trusts
Estimated Revenue
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Collections On

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DEPARTMENT OF LABOR AND INDUSTRY EXCLUDING WORKERS' COMPENSATION DIVISION
SCHEDULE OF REVENUE - ESTIMATED AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1984

	Miscellaneous	Reimbursements	License & Permits	Income Collections & Transfers	Federal Assistance	Fiduciary Trust	Total Revenue
General Fund							
Estimated Revenue	\$ 125,000	\$ -0-					\$ 125,000
Actual Revenue	<u>104,754</u>	<u>85,976 **</u>					<u>190,730</u>
Collections Over(Under) Estimate	<u>\$ (20,246)</u>	<u>\$ 85,976</u>					<u>\$ 65,730</u>
Special Revenue							
Estimated Revenue	\$ 8,000	\$728,936	\$2,800	\$ 906,793	\$ 31,810,525		\$33,457,054
Actual Revenue	<u>6,299</u>	<u>659,409</u>	<u>3,415</u>	<u>-0- *</u>	<u>25,807,094</u>		<u>26,476,217</u>
Collections Over(Under) Estimate	<u>\$ (1,701)</u>	<u>\$ (69,527)</u>	<u>\$ 615</u>	<u>\$ (906,793)*</u>	<u>\$ (6,003,431)</u>		<u>\$ (6,980,837)</u>
Debt Service Fund							
Estimated Revenue	\$ 332,600						\$ 332,600
Actual Revenue	<u>171,139</u>						<u>171,139</u>
Collections Over(Under) Estimate	<u>\$ (161,461)</u>						<u>\$ (161,461)</u>
Expendable Trust Fund							
Estimated Revenue					\$ 6,400,000	\$ 67,500,000	\$73,900,000
Actual Revenue					<u>18,783,469</u>	<u>56,627,270***</u>	<u>75,410,739</u>
Collections Over(Under) Estimate					<u>\$ 12,383,469</u>	<u>\$ (10,872,730)</u>	<u>\$ 1,510,739</u>

* This excludes an estimated \$803,878 transfer in which is shown on the Schedule of Changes in Fund Balance.

** This represents indirect cost recoveries related to the Statewide Cost Allocation Plan (SWCAP).

*** This represents contributions from Montana employers that are transferred to the U.S. Treasury and are subsequently returned as benefits are paid.

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 31 through 33.

General Fund
Estimated Revenue
Actual Revenue
Collections Over

Special Revenue
Estimated Revenue
Actual Revenue
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Debt Service Fund
Estimated Revenue
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Collections Over

Expendable Trust
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DEPARTMENT OF LABOR AND INDUSTRY EXCLUDING WORKERS' COMPENSATION DIVISION
SCHEDULE OF REVENUE - ESTIMATED AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 1983

	<u>Service Fee</u>	<u>License & Permits</u>	<u>Reimbursements</u>	<u>Federal Assistance</u>	<u>Miscellaneous</u>	<u>Fiduciary & Trust</u>	<u>Total Revenue</u>
General Fund							
Estimated Revenue	\$-0-		\$ -0-				\$ -0-
Actual Revenue	<u>192</u>		<u>99,091 *</u>				<u>99,283</u>
Collections Over(Under) Estimate	<u>\$192</u>		<u>\$ 99,091</u>				<u>\$ 99,283</u>
Special Revenue Fund							
Estimated Revenue		\$ 15,435	\$ 538,562	\$ 40,849,139	\$ 9,891		\$ 41,413,027
Actual Revenue		<u>3,105</u>	<u>334,930 **</u>	<u>26,168,993</u>	<u>36,903</u>		<u>26,543,931</u>
Collections Over(Under) Estimate		<u>\$(12,330)</u>	<u>\$(203,632)</u>	<u>\$(14,680,146)</u>	<u>\$ 27,012</u>		<u>\$(14,869,096)</u>
Debt Service Fund							
Estimated Revenue					\$354,761		\$ 354,761
Actual Revenue					<u>348,649</u>		<u>348,649</u>
Collections Over(Under) Estimate					<u>\$ (6,112)</u>		<u>\$ (6,112)</u>
Expendable Trust Fund							
Estimated Revenue				\$ 6,500,000		\$ 47,000,000	\$ 53,500,000
Actual Revenue				<u>715,732</u>		<u>71,217,007***</u>	<u>71,932,739</u>
Collections Over(Under) Estimate				<u>\$ (5,784,268)</u>		<u>\$ 24,217,007</u>	<u>\$ 18,432,739</u>

* This represents indirect cost recoveries related to the Statewide Cost Allocation Plan (SWCAP).

** This represents reimbursements received by Centralized Services and the Commissioner's Office for services provided to the various department divisions.

*** This represents contributions from Montana employers that are transferred to the U.S. Treasury and are subsequently returned as benefits are paid.

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 31 through 33.

GENERAL FUND

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DEPARTMENT OF LABOR AND INDUSTRY EXCLUDING WORKERS' COMPENSATION DIVISION
SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDING JUNE 30, 1984

	Commissioner of Labor and Industry	Labor Standards	Personnel Appeals	Human Rights	Job Service	Unemployment Insurance	Centralized Services	Job Training & Partnership Act	Total
GENERAL FUND									
Budget		\$482,284	\$356,279	\$176,426	\$ 90,500			\$ 659,501	\$ 1,764,990
Actual									
Personal Services		352,664	249,518	122,898	34,879				759,959
Operating Expenses		126,549	81,734	43,312	5,957				257,552
Equipment				9,949					9,949
Grants								271,176	271,176
Total Actual		479,213	331,252	176,159	40,836			271,176	1,298,636
Unspent Budget Authority		\$ 3,071	\$ 25,027	\$ 267	\$ 49,664			\$ 388,325	\$ 466,354
SPECIAL REVENUE FUND									
Budget	\$177,736	\$ 19,800	\$256,509	\$138,274	\$14,639,316	\$ 2,361,372	\$4,491,372	\$11,373,451	\$ 33,457,830
Actual									
Personal Services	120,735	16,256	195,204	82,575	7,708,476	1,712,651	2,535,556		12,371,453
Operating Expenses	56,709	1,271	41,417	23,436	1,633,722	427,819	901,833		3,086,207
Equipment				6,640	404,867	20,690	931,162		1,363,359
Capital Outlay					30,295				30,295
Grants					2,316,055			6,907,517	9,223,572
Total Actual	177,444	17,527	236,621	112,651	12,093,415	2,161,160	4,368,551	6,907,517	26,074,886
Unspent Budget Authority	\$ 292	\$ 2,273	\$ 19,888	\$ 25,623	\$ 2,545,901	\$ 200,212	\$ 122,821	\$ 4,465,934	\$ 7,382,944
EXPENDABLE TRUST FUND									
Budget						\$ -0-	**		\$ -0-
Actual									
Benefits and Claims						75,270,493			75,270,493
Total Actual						75,270,493			75,270,493
Unspent Budget Authority						\$(75,270,493)	**		\$(75,270,493)
DEBT SERVICE FUND									
Budget							\$ -0-	**	\$ -0-
Actual									
Debt Service							171,139		171,139
Total Actual							171,139		171,139
Unspent Budget Authority							\$(171,139)	**	\$(171,139)
PROGRAM TOTAL									
Budget	\$177,736	\$502,084	\$612,788	\$314,700	\$14,729,816	\$ 2,361,372	\$4,491,372	\$12,032,952	\$ 35,222,820
Actual									
Personal Services	120,735	368,920	444,722	205,473	7,743,355	1,712,651	2,535,556		13,131,412
Operating Expenses	56,709	127,820	123,151	66,748	1,639,679	427,819	901,833		3,343,759
Equipment				16,589	404,867	20,690	931,162		1,373,308
Capital Outlay					30,295				30,295
Grants					2,316,055				9,494,748
Benefits and Claims						75,270,493		7,178,693	75,270,493
Debt Service							171,139		171,139
Total Actual	177,444	496,740	567,873	288,810	12,134,251	77,431,653	4,539,690	7,178,693	102,815,154
Unspent Budget Authority	\$ 292	\$ 5,344	\$ 44,915	\$ 25,890	\$ 2,595,565	\$(75,070,281)	**\$(48,318)	**\$ 4,854,259	*\$(67,592,334)

* This excludes a \$803,878 budgeted transfer-out which is shown on the Schedule of Changes in Fund Balance.

** An appropriation is not required in these funds.

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 31 through 33.

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DEPARTMENT OF LABOR AND INDUSTRY EXCLUDING WORKERS' COMPENSATION DIVISION
 SCHEDULE OF EXPENDITURES - BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDING JUNE 30, 1983

	Commissioner of Labor & Industry	Labor Standards	Personnel Appeals	Employment & Training	Human Rights	Job Service	Unemployment Insurance	Centralized Service	CETA Subgrant	Total
GENERAL FUND										
Budget		\$446,869	\$366,507		\$148,827					\$ 962,203
Actual										
Personal Services		309,507	255,143		109,478					674,128
Operating Expenses		68,249	52,255		29,774					150,278
Equipment		3,768	3,712							7,480
Transfers		41,566	30,797		9,574					81,937
Total Actual		423,090	341,907		148,826					913,823
Unspent Budget Authority		\$ 23,779	\$ 24,600		\$ 1					\$ 48,380
SPECIAL REVENUE FUND										
Budget	\$164,231	\$141,929	\$ 14,481	\$14,146	\$ 85,456	\$11,470,067	\$ 2,226,655	\$4,228,203	\$17,886,272	\$ 36,231,440
Actual										
Personal Services	101,077	44,085		25	64,227	7,765,557	1,781,355	2,168,123		11,924,449
Operating Expenses	4,417	71,242	3,290	(5,759)	11,821	1,331,446	212,104	942,406		2,570,967
Equipment						357,520	22,536	32,748		412,804
Grants						2,685,088			8,366,936	11,052,024
Transfers	18,585	10,434			4,960	155,861	22,550	28,395		240,785
Total Actual	124,079	125,761	3,290	\$(5,734)	81,008	12,295,472 *	2,038,545	3,171,672	8,366,936	26,201,029
Unspent Budget Authority	\$ 40,152	\$ 16,168	\$ 11,191	\$14,146	\$ 4,448	\$ (825,405) *	\$ 188,110	\$1,056,531	\$ 9,519,336	\$ 10,024,677
EXPENDABLE TRUST FUND										
Budget							\$ -0-			\$ -0-
Actual										
Benefits and Claims							88,513,722			88,513,722
Total Actual							88,513,722 **			88,513,722
Unspent Budget Authority							\$(88,513,722) **			\$(88,513,722)
DEBT SERVICE FUND										
Budget								\$ -0-		\$ -0-
Actual										
Debt Service								348,649		348,649
Total Actual								348,649 **		348,649
Unspent Budget Authority								\$(348,649) **		\$(348,649)
PROGRAM TOTAL										
Budget	\$164,231	\$588,798	\$380,988	\$14,146	\$234,283	\$11,470,067	\$ 2,226,655	\$4,228,203	\$17,886,272	\$ 37,193,643
Actual										
Personal Services	101,077	353,592	255,143	25	173,705	7,765,557	1,781,355	2,168,123		12,598,577
Operating Expenses	4,417	139,491	55,545	(5,759)	41,595	1,331,446	212,104	942,406		2,721,245
Equipment		3,768	3,712			357,520	22,536	32,748		420,284
Grants						2,685,088			8,366,936	11,052,024
Benefits and Claims							88,513,722			88,513,722
Debt Service								348,649		348,649
Transfers	18,585	52,000	30,797		14,534	155,861	22,550	28,395		322,722
Total Actual	124,079	548,851	345,197	\$(5,734)	229,834	12,295,472 *	90,552,267 **	3,520,321	8,366,936	115,977,223
Unspent Budget Authority	\$ 40,152	\$ 39,947	\$ 35,791	\$14,146	\$ 4,449	\$ (825,405) *	\$(88,325,612) **	\$ 707,882	\$ 9,519,336	\$(78,789,314)

* This includes \$2,685,088 of non-budgeted expenditures which were recorded in the Federal and Private Grant Clearance Fund under the old Treasury Fund structure. According to state law, these funds did not require an appropriation.

** An appropriation is not required in these funds.

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 31 through 33.

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DEPARTMENT OF LABOR AND INDUSTRY
EXCLUDING WORKERS' COMPENSATION DIVISION
SCHEDULE OF EXPENDITURES - ALL FUNDS
FOR THE FISCAL YEAR ENDING JUNE 30, 1984

	Commissioner of Labor and Industry	Labor Standards	Personnel Appeals	Human Rights	Job Service	Unemployment Insurance	Centralized Services	Job Training and Partnership Act	Total
PERSONAL SERVICES									
Salaries	\$105,858	\$308,010	\$363,084	\$167,433	\$ 6,466,614	\$ 1,421,205	\$2,119,751		\$ 10,951,955
Other Compensation			13,130	2,542	6,325	835	6		22,838
Employee Benefits	14,877	60,910	68,508	35,498	1,270,416	290,611	415,799		2,156,619
Total Personal Services	<u>120,735</u>	<u>368,920</u>	<u>444,722</u>	<u>205,473</u>	<u>7,743,355</u>	<u>1,712,651</u>	<u>2,535,556</u>		<u>13,131,412</u>
OPERATING EXPENSES									
Contracted Services	21,417	4,349	13,931	3,702	402,758	230,825	290,374		967,356
Supplies & Materials	1,141	2,342	1,800	3,615	51,093	57,472	126,041		243,504
Communications	2,202	19,020	26,796	15,252	294,949	42,298	140,026		540,543
Travel	3,776	31,912	31,350	17,974	176,564	30,930	76,517		369,023
Rent		8,184	9,535	8,059	307,805	4,113	34,229		371,925
Utilities					100,171		52,231		152,402
Repair and Maintenance	52	2,847	1,789	344	126,389	21,321	122,882		275,624
Other Expenses	28,121	59,166	37,950	17,802	179,942	40,860	59,533		423,374
Goods Purchases for Resale					8				8
Total Operating Expenses	<u>56,709</u>	<u>127,820</u>	<u>123,151</u>	<u>66,748</u>	<u>1,639,679</u>	<u>427,819</u>	<u>901,833</u>		<u>3,343,759</u>
EQUIPMENT									
Equipment				16,589	403,175	19,006	928,420		1,367,190
Capital Lease					1,692	1,684	2,742		6,118
Total Equipment				<u>16,589</u>	<u>404,867</u>	<u>20,690</u>	<u>931,162</u>		<u>1,373,308</u>
CAPITAL OUTLAY									
Other Improvements					30,295				30,295
Total Capital Outlay					<u>30,295</u>				<u>30,295</u>
GRANTS									
From Federal Sources					2,316,055			\$7,178,693	9,494,748
Total Grants					<u>2,316,055</u>			<u>7,178,693</u>	<u>9,494,748</u>
BENEFITS AND CLAIMS									
Total Benefits and Claims *						75,270,493			<u>75,270,493</u>
DEBT SERVICE									
Bonds							171,139		171,139
Total Debt Service							<u>171,139</u>		<u>171,139</u>
TOTAL PROGRAM EXPENDITURES	<u>\$177,444</u>	<u>\$496,740</u>	<u>\$567,873</u>	<u>\$288,810</u>	<u>\$12,134,251</u>	<u>\$77,431,653</u>	<u>\$4,539,690</u>	<u>\$7,178,693</u>	<u>\$102,815,154</u>

* Benefits and claims payments consists of payments made to individuals for unemployment insurance benefits.

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 31 through 33.

PERSONAL SERVICES

Salaries
Other Compensation
Employee Benefits
Total Personal Services

OPERATING EXPENSES

Contracted Services
Supplies & Materials
Communications
Travel
Rent
Utilities
Repair and Maintenance
Other Expenses
Total Operating Expenses

EQUIPMENT

Equipment
Capital Lease
Total Equipment

GRANTS

From Federal Sources
Total Grants

BENEFITS AND CLAIMS

Total Benefits and Claims

TRANSFERS

Accounting Entries
Total Transfers

DEBT SERVICE

Bonds
Total Debt Service

TOTAL PROGRAM EXPENSES

* Benefits and claims

These schedules
schedules on page

DEPARTMENT OF LABOR AND INDUSTRY
EXCLUDING WORKERS' COMPENSATION DIVISION
SCHEDULE OF EXPENDITURES - ALL FUNDS
FOR THE FISCAL YEAR ENDING JUNE 30, 1983

	Commissioner of Labor and Industry	Labor Standards	Personnel Appeals	Employment and Training	Human Rights	Job Service	Unemployment Insurance	Centralized Services	CETA	Total
PERSONAL SERVICES										
Salaries	\$ 89,110	\$295,789	\$214,121		\$144,500	\$ 6,537,338	\$ 1,490,964	\$1,822,633		\$ 10,594,455
Other Compensation			1,300	\$ 25	800	3,910	2,385	2,510		10,930
Employee Benefits	11,967	57,803	39,722		28,405	1,224,309	288,006	342,980		1,993,192
Total Personal Services	<u>101,077</u>	<u>353,592</u>	<u>255,143</u>	<u>25</u>	<u>173,705</u>	<u>7,765,557</u>	<u>1,781,355</u>	<u>2,168,123</u>		<u>12,598,577</u>
OPERATING EXPENSES										
Contracted Services	114	69,718	15,705	(6,000)	16,134	361,422	17,580	538,270		1,012,943
Supplies & Materials	218	4,410	2,489	18	791	40,605	62,849	89,389		200,769
Communications	741	23,491	9,790		7,672	253,458	48,591	46,770		390,513
Travel	3,014	29,343	15,177	223	7,976	125,480	33,162	33,509		247,884
Rent	32	6,292	4,630		6,700	284,382	7,961	50,943		360,940
Utilities						101,186		43,114		144,300
Repair and Maintenance		4,382	3,041		1,357	81,265	20,984	120,491		231,520
Other Expenses	298	1,855	4,713		965	83,648	20,977	19,920		132,376
Total Operating Expenses	<u>4,417</u>	<u>139,491</u>	<u>55,545</u>	<u>(5,759)</u>	<u>41,595</u>	<u>1,331,446</u>	<u>212,104</u>	<u>942,406</u>		<u>2,721,245</u>
EQUIPMENT										
Equipment		3,768	3,712			354,682	19,717	26,041		407,920
Capital Lease						2,838	2,819	6,707		12,364
Total Equipment		<u>3,768</u>	<u>3,712</u>			<u>357,520</u>	<u>22,536</u>	<u>32,748</u>		<u>420,284</u>
GRANTS										
From Federal Sources						2,685,088			\$8,366,936	11,052,024
Total Grants						<u>2,685,088</u>			<u>8,366,936</u>	<u>11,052,024</u>
BENEFITS AND CLAIMS										
Total Benefits and Claims *							88,513,722			<u>88,513,722</u>
TRANSFERS										
Accounting Entity Transfers	18,585	52,000	30,797		14,534	155,861	22,550	28,395		322,722
Total Transfers	<u>18,585</u>	<u>52,000</u>	<u>30,797</u>		<u>14,534</u>	<u>155,861</u>	<u>22,550</u>	<u>28,395</u>		<u>322,722</u>
DEBT SERVICE										
Bonds								348,649		348,649
Total Debt Service								<u>348,649</u>		<u>348,649</u>
TOTAL PROGRAM EXPENDITURES	<u>\$124,079</u>	<u>\$548,851</u>	<u>\$345,197</u>	<u>\$ (5,734)</u>	<u>\$229,834</u>	<u>\$12,295,472</u>	<u>\$90,552,267</u>	<u>\$3,520,321</u>	<u>\$8,366,936</u>	<u>\$115,977,223</u>

* Benefits and claims payments consist of payments made to individuals for unemployment insurance benefits.

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 31 through 33.

DEPARTMENT OF LABOR AND INDUSTRY
EXCLUDING WORKERS' COMPENSATION DIVISION
SCHEDULE OF EXPENDABLE TRUST FUND ACCOUNTS RECEIVABLE
FOR THE FISCAL YEAR ENDED JUNE 30, 1984

Accounts receivables recorded in the Expendable Trust Fund consist of: (1) employer contributions - money owed the department for employers share of unemployment taxes; (2) unemployment benefit overpayments - overpayments to claimants on unemployment checks; and (3) combined wage claims - billings to other states for benefits paid by Montana to claimants who are eligible for benefits from the other state. Receivable balances, by type, at June 30, 1984 follow:

Employer Contributions	\$2,172,133
Benefit Overpayments	558,160
Combined Wage Claims	305,070
Total	<u>\$3,035,363</u>

DEPARTMENT OF LABOR AND INDUSTRY
EXCLUDING WORKERS' COMPENSATION DIVISION
SCHEDULE OF LONG-TERM LIABILITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 1984

Bond Payable to State of Montana Public Employees' Retirement System	\$ 447,359
 Note Payable to the Department of Administration for the department's portion of the 1980 General Obligation Bond	 1,121,916 *
 Note Payable to the Department of Administration for the department's portion of the 1981 General Obligation Bond	 346,666 *
 Loan Payable to the Federal Unemployment Trust Fund	 <u>14,825,028</u>
 Total	 <u><u>\$16,740,969</u></u>

* These amounts are combined on the Statewide Budgeting and Accounting System.

DEPARTMENT OF LABOR AND INDUSTRY
EXCLUDING WORKERS' COMPENSATION DIVISION
NOTES TO THE FINANCIAL SCHEDULES
FOR THE TWO FISCAL YEARS ENDING JUNE 30, 1984

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustments. Accounts are organized on the basis of funds according to state law. The following fund types are used by the department.

General Fund - accounts for all financial resources except those required to be accounted for in other funds.

Special Revenue Fund - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Legislative appropriation is required to spend from this fund.

Debt Service Fund - To account for the accumulation of resources for and the payment of long-term debt principal and interest.

Expendable Trust Fund - accounts for assets held in trust by the department for others. A legislative appropriation is not required to spend from this fund.

Basis of Accounting

The state of Montana utilizes the modified accrual basis of accounting which is described in the Montana Operations Manual. Under the modified accrual basis of accounting, a valid obligation exists when the associated liability is incurred except for the following items which are also considered valid obligations under state accounting policy.

- If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.

- The anticipated cost of equipment is expensed in the fiscal year in which budgeted.
- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.

2. CHANGE IN REPORTING ENTITY

Organization Change

The department was reorganized at the beginning of fiscal year 1983. The Employment and Training Division merged with and became part of the Job Service and Training Division. The department currently consists of the Commissioner's Office and the following divisions:

1. Centralized Services,
2. Human Rights,
3. Job Service and Training,
4. Labor Standards,
5. Appeals,
6. Unemployment Insurance, and
7. Workers' Compensation.

Prior financial schedules reported the Unemployment Insurance and Workers' Compensation Division separately. The financial activity presented in this report includes all divisions except for Workers' Compensation Division.

3. CHANGE IN REPORTING YEAR

The prior audit of the Employment Security Division was reported on the federal fiscal year. Prior to the department's organization, the Employment Security Division consisted of the Unemployment Insurance Division, the Centralized Services Division, and the Job Service Division. The current schedules report on the state's fiscal year.

4. FIXED ASSETS

The department records assets on the state's Property and Accountability Management System. Fixed asset balances as of June 30, 1984 and the changes since June 30, 1982 follow:

<u>General Fixed Assets</u>	<u>June 30 1982 Balance</u>	<u>Net Additions (Deletions)</u>	<u>June 30 1984 Balance</u>
Land	\$ 457,777	\$ (232,436)	\$ 225,341
Building	3,207,087	77,767	3,284,854
Other Improvements	4,958	-0-	4,958
Equipment	1,940,493	1,011,295	2,951,788
Construction WIP	325	(325)	-0-
Total	<u>\$5,610,640</u>	<u>\$ 856,301</u>	<u>\$6,466,941</u>

5. PENSION PLAN

Employees are covered by the Montana Public Employees' Retirement System (PERS). The department's contributions to this plan was \$1,360,458 in fiscal year 1983 and \$1,333,883 in fiscal year 1984.

6. VACATION AND SICK LEAVE

Employees of the department accumulate both vacation and sick leave. Employees are paid for 100 percent of unused vacation and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for vacation and sick leave are not reflected in the financial schedules of the department. Expenditures for termination pay currently are absorbed in the annual operational costs of the department. At June 30, 1984, the department has a predicted liability of \$876,531 for vacation leave and \$506,800 for sick leave.

7. GENERAL FUND BALANCE

The state's General Fund beginning and ending fund balance on an agency basis is zero since any balance in the fund is owed to the state General Fund at fiscal year-end.

DEPARTMENT OF LABOR AND INDUSTRY
EXCLUDING WORKERS' COMPENSATION DIVISION
SCHEDULE OF FEDERAL GRANT RECEIPTS
FISCAL YEARS ENDING JUNE 30, 1983 AND 1984

<u>Federal Agency</u>	<u>Grant Number</u>	<u>Fiscal Year 1982-83</u>	<u>Fiscal Year 1983-84</u>
Veterans Administration	V101(223B)P2234	\$ 13,206	
	V101(223B)P2334	26,571	\$ 13,676
Housing and Urban Development	HA-10896	-0-	24,270
Equal Employment Opportunity Commission	1/5010/0227		
	2/5010/0100	44,482	
	2/5010/0015		
	2/5010/0146		
	2/5010/0016	45,478	32,852
	3/5010/0080		
	3/5010/0175		
	4/5010/0058		59,012
National Occupational Information Coordinating Committee	BAG 99-1-1416-17-27	79,650	
	99-1-3002-17-71	76,846	
	82-G707	2,000	
	CETA Subgrant	10,582	
	99-2-1416-17-16	18,194	
	3925	33,537	
U.S. Department of Labor:			
CETA			
Title II ABC	30-2-210-10	900,000	
Special Grant	30-2-210-18	115,000	
Title VII	30-2-210-27	140,000	
Title IV SYEP	30-2-210-32	567,000	
Administrative Cost Pool	30-2-210-05	550,000	
Administrative Cost Pool	30-2-210-06	65,000	
Title II ABC, YETP, VII	30-3-210-22	3,595,000	1,380,604
Special Grants	30-3-210-25	155,000	427,840
Title IV SYEP	30-3-210-32	535,000	1,028,629
Administrative Cost Pool	30-3-210-05	490,000	786,539
Administrative Cost Pool	30-3-210-06	175,000	52,679
CEP	30-3-205-10	865,000	
Title IID PSE	30-1-210-21		(64)
Title VI PSE	30-1-210-60		2,070
JTPA			
TAT	99-3-0565-72-393		18,330
Title III-83	99-3-0565-03-040		201,860
Title IIA, B, III	30-84		5,090,054
CEP/BOS	99-3-0565-71-212		80,000
Rocky Mtn Work Project	99-3-0565-03-372		396,236
Trade Act CMA	91700	(5,192)	
CETA Technical Assistance	91531	5,000	
Employment Service	92051	2,278	
Disaster Unemployment Assistance	92361	(434)	
CETA IV Job Corps	91102	101,821	
CETA III Labor Market Information	91542	23,268	
Trade Act CMA	91702	(720)	

DEPARTMENT OF LABOR AND INDUSTRY
EXCLUDING WORKERS' COMPENSATION DIVISION
SCHEDULE OF FEDERAL GRANT RECEIPTS
FISCAL YEARS ENDING JUNE 30, 1983 AND 1984 (Continued)

<u>Federal Agency</u>	<u>Grant Number</u>	<u>Fiscal Year</u> <u>1982-83</u>	<u>Fiscal Year</u> <u>1983-84</u>
Targeted Job Tax Credit	91752	\$ 50,026	
Employment Service	92052	1,783,957	
UI/ES/FSC	92062	24,000	\$ 820
UI/FSC	92092	110,103	
UI Administration	92102	1,641,942	
Food Stamps	92122	81,796	
WIN State Central	92512	55,371	
WIN Local Project	92522	309,721	
CETA IV Job Corp	91103	148,000	67,012
Targeted Job Tax Credit	91753	47,000	33,702
Disabled Veterans Outreach Program	92033	110,000	38,414
Employment Services	92053	3,544,029	1,339,690
WIN State Central	92513	120,000	27,016
WIN Local Project	92523	415,000	264,935
CETA III Labor Market Information	91543	39,132	15,854
UI Administration	92103	4,500,000	1,930,000
Employment Training Administration			
/Public Service Contract	91121	55,228	(3,109)
Disaster Unemployment Assistance	92371	(268)	
Military Benefits	92242	65,488	
Trade Readjustment Act	92262	3,173	
UI/Public Service Contract	92322	(19,228)	
Military Benefits	92243	611,339	166,020
CETA IV Job Corps	91104		144,000
Current Employment Statistics	91214		59,000
Local Area Unemployment Statistics	91224		61,000
Occupational Employment Statistics	91234		27,000
Technical Assistant Training	91533		18,500
State/Local Labor Market Information	91544		28,000
Labor Certification	91644		11,000
Employment Service - 202	91674		76,000
CETA Trade	91703		795
Targeted Job Tax Credit	91754		53,000
Local Veterans Employment Representation	92024		269,000
Disabled Veterans Outreach Program	92034		135,000
Employment Service	92054		3,476,000
Federal Supplemental Compensation	92064		12,000
UI	92104		4,507,255
UI Postage	92134		133,870
WIN Central Office	92514		107,000
WIN Local Office	92524		437,903
Extended Benefits		4,866,000	50,000
Federal Supplemental Benefits		12,812,000	14,703,000
Federal Employees, including			
Military Benefits		2,913,000	3,247,000
SOICC	99-4-1416-21-266-02	-0-	69,318
SOICC	Miscellaneous		3,124
TOTAL		<u>\$42,915,376</u>	<u>\$41,103,706</u>

AGENCY REPONSES

DEPARTMENT OF LABOR AND INDUSTRY
COMMISSIONER'S OFFICE



TED SCHWINDEN, GOVERNOR

STATE CAPITOL

STATE OF MONTANA

(406) 449 3661

HELENA, MONTANA 59620

November 16, 1984

Kathleen McBride, Chairperson
Legislative Audit Committee
Montana State Legislature
Office of Legislative Auditor
State Capitol
Helena, MT 59620

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MONTANA LEGISLATIVE AUDITOR

Dear Ms. McBride:

We have reviewed the audit report for the Department of Labor and Industry (excluding Workers' Compensation Division) from July 1, 1982 through June 30, 1984. Following is the response of the Department of Labor and Industry to the recommendations contained in the report:

Recommendation #1

We recommend the department work with the Department of Revenue to obtain evidence of out-of-state employers compliance with unemployment tax laws.

Partially concur.

The Unemployment Insurance Division has a letter of agreement with the Department of Revenue to exchange information about employers, and will examine the possibility of expanding the agreement to include out-of-state employers. It should be noted, however, that Department of Revenue's wage information is not always compatible for unemployment insurance purposes.

Recommendation #2

We recommend the department develop procedures to ensure changes in benefit durations required by the federal government are made in a proper and timely manner.

Concur.

The department has entered into an agreement with an independent contractor to update and computerize the benefit system of the Unemployment Insurance Division. The updated system, which is scheduled for implementation on April 15, 1985, will include a benefit duration check.

Recommendation #3

We recommend the department establish procedures to ensure a review of application forms is completed within 30 days in accordance with federal regulations.

Concur.

The Job Service and Training Division has established procedures to review CETA/JTPA participant applications within the 30 day requirement. All participant applications are date stamped, reviewed, and initialed prior to being key punched.

Recommendation #4

We recommend the department submit federal reports when due.

Concur.

The annual timeline of the Accounting Bureau, Centralized Services Division, will be expanded to include every federal report individually by due date. All reports will be submitted when due.

Recommendation #5

We recommend the department record accounts receivable in the state accounting records for all amounts due the department at fiscal year end.

Concur.

The responsibilities associated with the benefits account are divided between the Accounting Bureau, Centralized Services Division and the Unemployment Insurance Division. The Unemployment Insurance Division will be responsible for the benefits account and will coordinate with the Accounting Bureau to ensure that the accounts receivable are recorded on Statewide Budgeting and Accounting System (SBAS).

Recommendations #6

We recommend the department estimate and record an allowance for uncollectible accounts on the state accounting system.

Concur.

The Unemployment Insurance Division will coordinate with the Accounting Bureau, Centralized Services Division to ensure that allowances for doubtful account entries are recorded in SBAS for the employer tax and benefit overpayment receivables. The recorded allowances will be based upon estimates made by the Unemployment Insurance Division.

Recommendation #7

We recommend the department transfer uncollectible Comprehensive Employment and Training Act (CETA) and Work Incentive Program (WIN) overpayments to the Department of Revenue for collection.

Partially concur.

The department will review the accounts receivable and where possible will resolve with the Administrator of the Job Service and Training Division and the U.S. Department of Labor. The department will develop and conclude an agreement with the Department of Revenue to collect participant overpayments. If there are any overpayments that have not been resolved, they will be turned over to the Department of Revenue according to the written agreement.

Recommendation #8

We recommend the department:

- A. Record long-term debt related to special revenue funds in the long-term debt group of accounts.
- B. Reduce the bonds payable account for principle payments made during the fiscal year.

Concur:

- A. The department will adjust its records to show the long-term debt to the proper group of accounts. There were name changes on some of the accounts and the department did not identify the change.
- B. The department will make the adjustment.

Recommendation #9

We recommend the Department of Administration establish procedures to eliminate the double recording of central services expenditures.

Concur.

The department could provide the Department of Administration with the amount of double expenditures at fiscal year end for an adjustment of the state financial statements. It should be noted that all expenditures were consistent with legislatively approved budgets.

Recommendation #10

We recommend the department record transfers of moneys between accounts in accordance with state policy.

Partially concur.

It is necessary for the Job Service and Training Division to generate a state warrant in order for the programmatic funds to be deposited in a local bank account. Checks generated from this account are not state warrants, but are recorded in SBAS on a monthly basis by lump sum. The SBAS system will not allow the department to transfer-in or transfer-out, because such a transaction must balance on a document. The department inputs two separate documents, one for the deposit and the other to record monthly disbursements.

Recommendation #11

We recommend the department reconcile the benefit bank account to the accounting records.

Concur.

The department has appointed an individual to coordinate the reconciliation of the benefit bank account. The bank assumed reconciliation responsibilities on October 1, 1984. The department should have the account reconciled by the end of the year.

Recommendation #12

We recommend the department implement procedures to ensure all benefit overpayments are established as an accounts receivable.

Partially concur.

The Unemployment Insurance Division's overpayment policy is being revised. Legislation will be introduced in the 1985 session to clarify authority to collect overpayments. The establishing of overpayments will become automatic with the rewrite of the benefit system.

Recommendation #13

We recommend the department include provisions in its disaster recovery plan to ensure payments to claimants are made in an efficient and economical manner.

Partially concur.

The department will study all available alternatives to ensure that benefit, Job Training and Partnership Act (JTPA), and WIN recipients receive their funds if a disaster occurs. The alternatives include an agreement with the Auditor's office.

Recommendation #14

We recommend the department:

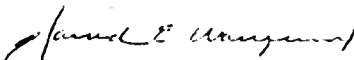
- A. Establish a written policy to document reviews of subgrantees cash requisition and expenditure reports.
- B. Ensure warning letters and penalties are assessed in accordance with department policy.

Concur.

- A. It is the policy of the Job Service and Training Division that all expenditure reports and requisitions for cash are reviewed before payments to subgrantees are made. There are cases where the report accidentally may not be initialed by the reviewer. The division is in the process of updating written fiscal procedures and this policy will be included in those procedures.
- B. The Job Service and Training Division is now keeping postmarked envelopes to better track report receipt dates.

If you have any questions, please contact me.

Sincerely,


DAVID E. WANZENRIED
Acting Commissioner

DEPARTMENT OF ADMINISTRATION
DIRECTOR'S OFFICE



TED SCHWINDEN, GOVERNOR

MITCHELL BUILDING

STATE OF MONTANA

(406) 444 2032

HELENA, MONTANA 59620

November 16, 1984

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NOV 16 1984

MONTANA LEGISLATIVE AUDITOR

James H. Gillett, Deputy Legislative Auditor
Office of the Legislative Auditor
State Capitol
Helena, MT 59620

Dear Jim:

In accordance with your request, we submit our response to the recommendation included in the audit report on the Department of Labor and Industry.

RECOMMENDATION #9

We recommend the Department of Administration establish procedures to eliminate the double recording of central services expenditures.

Response

We concur. The means to avoid double recording of central services expenditures already exists within the Statewide Budget and Accounting System. If requested, the Department of Administration will assist the Department of Labor and Industry in implementing an alternative procedure for the recording of such transactions.

Sincerely,

Morris Brusett

Morris Brusett
Director

MB/YF/mc

